INTL FCSTONE INC.
Form 10-Q
August 08, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From to
Commission File Number 000-23554

INTL FCStone Inc.
(Exact name of registrant as specified in its charter)

Delaware	59-2921318
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

708 Third Avenue, Suite 1500
New York, NY 10017
(Address of principal executive offices) (Zip Code)
(212) 485-3500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of August 7, 2017, there were 18,719,538 shares of the registrant's common stock outstanding.

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Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 2017
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
INTL FCStone Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(in millions, except par value and share amounts)	June 30, 2017	September 30, 2016
ASSETS		
Cash and cash equivalents	$306.1	$ 316.2
Cash, securities and other assets segregated under federal and other regulations (including $241.8 and $618.8 at fair value at June 30, 2017 and September 30, 2016, respectively)	678.7	1,136.3
Securities purchased under agreements to resell	521.7	609.6
Securities borrowed	119.6	—
Deposits with and receivables from:		
Exchange-clearing organizations (including $232.5 and $868.5 at fair value at June 30, 2017 and September 30, 2016, respectively)	1,988.6	1,524.4
Broker-dealers, clearing organizations and counterparties (including $22.5 and $(15.2) at fair value at June 30, 2017 and September 30, 2016, respectively)	177.7	237.0
Receivables from customers, net	251.5	194.5
Notes receivable, net	9.1	18.9
Income taxes receivable	1.4	1.1
Financial instruments owned, at fair value (includes securities pledged as collateral that can be sold or repledged of $171.4 and $47.2 at June 30, 2017 and September 30, 2016, respectively)	1,779.1	1,606.1
Physical commodities inventory (including $84.4 and $71.2 at fair value at June 30, 2017 and September 30, 2016, respectively)	172.5	123.8
Deferred income taxes, net	40.4	34.5
Property and equipment, net	33.1	29.4
Goodwill and intangible assets, net	60.5	56.6
Other assets	55.9	61.9
Total assets	$6,195.9	$ 5,950.3
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and other accrued liabilities (including $0.9 and $0.8 at fair value at June 30, 2017 and September 30, 2016, respectively)	$142.5	$ 161.3
Payables to:		
Customers	2,799.5	2,854.2
Broker-dealers, clearing organizations and counterparties (including $3.4 and $3.5 at fair value at June 30, 2017 and September 30, 2016, respectively)	182.3	260.1
Lenders under loans	244.7	182.8
Senior unsecured notes	—	44.5
Income taxes payable	8.6	7.1
Securities sold under agreements to repurchase	1,458.3	1,167.1
Securities loaned	148.0	—
Financial instruments sold, not yet purchased, at fair value	742.9	839.4
Total liabilities	5,726.8	5,516.5
Commitments and contingencies (Note 11)		
Stockholders' Equity:		
	—	—

Preferred stock, $0.01 par value. Authorized 1,000,000 shares; no shares issued or outstanding		
Common stock, $0.01 par value. Authorized 30,000,000 shares; 20,825,712 issued and 18,703,755 outstanding at June 30, 2017 and 20,557,175 issued and 18,435,218 outstanding at September 30, 2016	0.2	0.2
Common stock in treasury, at cost - 2,121,957 shares at June 30, 2017 and September 30, 2016	(46.3)	(46.3)
Additional paid-in capital	256.8	249.4
Retained earnings	285.1	255.1
Accumulated other comprehensive loss, net	(26.7)	(24.6)
Total stockholders' equity	469.1	433.8
Total liabilities and stockholders' equity	$6,195.9	$ 5,950.3

See accompanying notes to condensed consolidated financial statements.

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INTL FCStone Inc.
Condensed Consolidated Income Statements
(Unaudited)

(in millions, except share and per share amounts)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Nine Months Ended June 30, 2017	Nine Months Ended June 30, 2016
Revenues:				
Sales of physical commodities	$5,317.0	$ 4,703.2	$16,486.3	$ 11,503.8
Trading gains, net	79.9	83.4	246.9	243.8
Commission and clearing fees	73.0	58.2	212.5	159.4
Consulting and management fees	16.3	8.0	47.5	27.3
Interest income	19.6	15.6	47.7	42.8
Other income	0.1	0.1	0.2	0.2
Total revenues	5,505.9	4,868.5	17,041.1	11,977.3
Cost of sales of physical commodities	5,308.3	4,693.5	16,462.2	11,484.9
Operating revenues	197.6	175.0	578.9	492.4
Transaction-based clearing expenses	33.9	35.2	101.2	97.9
Introducing broker commissions	29.2	14.8	86.1	40.8
Interest expense	11.2	7.7	30.1	20.8
Net operating revenues	123.3	117.3	361.5	332.9
Compensation and other expenses:				
Compensation and benefits	75.5	69.4	222.7	197.7
Communication and data services	9.8	7.9	29.6	23.1
Occupancy and equipment rental	3.9	3.2	11.1	9.7
Professional fees	3.7	3.3	11.9	8.9
Travel and business development	3.0	2.9	9.6	8.4
Depreciation and amortization	2.4	2.1	7.2	6.2
Bad debts	0.1	—	3.9	4.6
Other	9.9	7.1	27.8	20.8
Total compensation and other expenses	108.3	95.9	323.8	279.4
Income before tax	15.0	21.4	37.7	53.5
Income tax expense	2.3	6.8	7.7	15.6
Net income	$12.7	$ 14.6	$30.0	$ 37.9
Earnings per share:				
Basic	$0.67	$ 0.79	$1.59	$ 2.03
Diluted	$0.66	$ 0.78	$1.58	$ 2.00
Weighted-average number of common shares outstanding:				
Basic	18,447,053	18,138,754	18,365,939	18,461,063
Diluted	18,702,128	18,322,451	18,659,138	18,655,672

See accompanying notes to condensed consolidated financial statements.

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INTL FCStone Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2017	2016	2017	2016
Net income	$12.7	$14.6	$30.0	$37.9
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	(1.9)	(0.1)	(2.1)	(7.0)
Pension liabilities adjustment	—	—	—	(0.2)
Reclassification of adjustments included in net income:				
Periodic pension costs (included in compensation and benefits)	—	—	—	0.4
Reclassification adjustment included in net income:	—	—	—	0.4
Other comprehensive loss	(1.9)	(0.1)	(2.1)	(6.8)
Comprehensive income	$10.8	$14.5	$27.9	$31.1

See accompanying notes to condensed consolidated financial statements.

INTL FCStone Inc.
Condensed Consolidated Cash Flows Statements
(Unaudited)

	Nine Months Ended June 30,	
(in millions)	2017	2016
Cash flows from operating activities:		
Net income	$30.0	$37.9
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	7.2	5.8
Bad debts	3.9	4.6
Deferred income taxes	(5.8)	0.9
Amortization of debt issuance costs and debt discount	1.7	0.7
Amortization of share-based compensation	4.6	3.8
(Gain) loss on sale of property and equipment	(0.3)	0.4
Changes in operating assets and liabilities, net:		
Cash, securities and other assets segregated under federal and other regulations	458.8	(218.0)
Securities purchased under agreements to resell	87.9	(301.3)
Securities borrowed	(112.7)	—
Deposits with and receivables from exchange-clearing organizations	(462.3)	51.5
Deposits with and receivables from broker-dealers, clearing organizations, and counterparties	30.2	96.1
Receivables from customers, net	(87.2)	101.8
Notes receivable, net	9.8	28.5
Income taxes receivable	(0.4)	1.4
Financial instruments owned, at fair value	(174.6)	(562.4)
Physical commodities inventory	(48.9)	(73.8)
Other assets	0.5	(7.1)
Accounts payable and other accrued liabilities	(13.3)	(2.3)
Payables to customers	(4.8)	75.6
Payables to broker-dealers, clearing organizations and counterparties	(65.4)	(8.9)
Income taxes payable	1.7	—
Securities sold under agreements to repurchase	291.2	429.0
Securities loaned	130.5	—
Financial instruments sold, not yet purchased, at fair value	(97.2)	304.0
Net cash used in operating activities	(14.9)	(31.8)
Cash flows from investing activities:		
Cash paid for acquisitions, net	(6.0)	—
Purchase of property and equipment	(8.6)	(12.1)
Net cash used in investing activities	(14.6)	(12.1)
Cash flows from financing activities:		
Net change in payable to lenders under loans	62.5	170.6
Repayment of senior unsecured notes	(45.5)	—
Payments of note payable	(0.6)	(0.6)
Deferred payments on acquisitions	—	(2.7)
Debt issuance costs	(0.3)	(1.9)
Exercise of stock options	3.1	2.3
Share repurchases	—	(19.5)
Income tax (shortfall) benefit on stock options and awards	(0.2)	0.7
Net cash provided by financing activities	19.0	148.9

Effect of exchange rates on cash and cash equivalents	0.4	(8.5)
Net (decrease) increase in cash and cash equivalents	(10.1)	96.5
Cash and cash equivalents at beginning of period	316.2	268.1
Cash and cash equivalents at end of period	$306.1	$364.6
Supplemental disclosure of cash flow information:		
Cash paid for interest	$27.2	$18.9
Income taxes paid, net of cash refunds	$12.4	$12.4
Supplemental disclosure of non-cash investing and financing activities:		
Identified intangible assets from asset acquisitions	$6.0	$—
Additional consideration payable related to acquisitions, net	$—	$0.3

See accompanying notes to condensed consolidated financial statements.

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INTL FCStone Inc.
Condensed Consolidated Statement of Stockholders’ Equity
(Unaudited)

(in millions)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, net	Total
Balances as of September 30, 2016	$ 0.2	$ (46.3)	$ 249.4	$ 255.1	$ (24.6)	$ 433.8
Net income				30.0		30.0
Other comprehensive loss					(2.1)	(2.1)
Exercise of stock options			2.8			2.8
Share-based compensation			4.6			4.6
Balances as of June 30, 2017	$ 0.2	$ (46.3)	$ 256.8	$ 285.1	$ (26.7)	$ 469.1

See accompanying notes to condensed consolidated financial statements.

INTL FCStone Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 – Basis of Presentation and Consolidation and Accounting Standards Adopted

INTL FCStone Inc., a Delaware corporation, and its consolidated subsidiaries (collectively "INTL" or "the Company"), is a diversified global financial services organization providing execution, risk management and advisory services, market intelligence, and clearing services across asset classes and markets around the world. The Company's services include comprehensive risk management advisory services for commercial customers; execution of listed futures and options on futures contracts on all major commodity exchanges; structured over-the-counter ("OTC") products in a wide range of commodities; physical trading and hedging of precious metals and select other commodities; trading of more than 140 foreign currencies; market-making in international equities; fixed income; debt origination and asset management.

The Company provides these services to a diverse group of more than 20,000 predominantly wholesale organizations located throughout the world, including producers, processors and end-users of nearly all widely-traded physical commodities to manage their risks and enhance margins; to commercial counterparties who are end-users of the Company's products and services; to governmental and non-governmental organizations; and to commercial banks, brokers, institutional investors and major investment banks.

Basis of Presentation and Consolidation

The accompanying condensed consolidated balance sheet as of September 30, 2016, which has been derived from audited consolidated financial statements, and the unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to those rules and regulations. The Company believes that the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the condensed consolidated financial statements for the interim periods presented have been reflected as required by Rule 10-01 of Regulation S-X. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. These interim condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and related notes contained in the Company's Form 10-K for the fiscal year ended September 30, 2016 filed with the SEC.

These condensed consolidated financial statements include the accounts of INTL FCStone Inc. and all other entities in which the Company has a controlling financial interest. All material intercompany transactions and balances have been eliminated in consolidation.

The Company's fiscal year end is September 30, and the fiscal quarters end on December 31, March 31, June 30 and September 30. Unless otherwise stated, all dates refer to fiscal years and fiscal interim periods.

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as of the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates and assumptions relate to fair value measurement for financial instruments and investments, revenue recognition, the provision for potential losses from bad debts, valuation of inventories, valuation of goodwill and intangible assets, incomes taxes, and contingencies. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

In the condensed consolidated income statements, the total revenues reported combine gross revenues for the physical commodities business and net revenues for all other businesses. The subtotal 'operating revenues' in the condensed consolidated income statements is calculated by deducting physical commodities cost of sales from total revenues. The subtotal 'net operating revenues' in the condensed consolidated income statements is calculated as operating revenues less transaction-based clearing expenses, introducing broker commissions and interest expense.

Transaction-based clearing expenses represent variable expenses paid to executing brokers, exchanges, clearing organizations and banks in relation to transactional volumes. Introducing broker commissions include commission paid to non-employee third parties that have introduced customers to the Company. Net operating revenues represent revenues available to pay variable compensation to risk management consultants and traders and direct non-variable expenses, as well as variable and non-variable expenses of operational and administrative employees.

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During the quarter ended March 31, 2017, the Company’s Securities reportable segment established a securities lending business. Securities borrowed and loaned are accounted for as collateralized financings. Securities borrowed and loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed and loaned are reported on a gross basis as the Company has determined that the right of offset does not exist. Interest income and interest expense are recognized over the life of the arrangements.

Accounting Standards Adopted

In April 2015, the FASB issued Accounting Standards Update (“ASU”) No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. In June 2015, the FASB issued ASU 2015-15 as an amendment to this guidance to address the absence of authoritative guidance for debt issuance costs related to line-of-credit arrangements. The SEC staff stated that they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-03 required retrospective application to all prior periods presented in the consolidated financial statements. This new guidance was effective for the Company in the first quarter of 2017. As a result of adopting this standard on October 1, 2016, deferred financing costs of $1.0 million as of September 30, 2016, previously reported within other assets, were reclassified to senior unsecured notes in the consolidated balance sheet. As of December 31, 2016, there were no deferred financing costs as the senior unsecured notes were redeemed during the three months ended December 31, 2016, as discussed in Note 9.

In January 2017, the FASB issued ASU 2017-01, Business Combinations - Clarifying the Definition of a Business, which clarifies the definition of a business for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company early adopted this guidance effective October 1, 2016, and applied the guidance in determining whether the acquisition discussed in Note 16 is the acquisition of an asset or of a business.

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Note 2 – Earnings per Share

The Company presents basic and diluted earnings per share (“EPS”) using the two-class method which requires all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends and therefore participate in undistributed earnings with common stockholders be included in computing earnings per share. Under the two-class method, net earnings are reduced by the amount of dividends declared in the period for each class of common stock and participating security. The remaining undistributed earnings are then allocated to common stock and participating securities, based on their respective rights to receive dividends. Restricted stock awards granted to certain employees and directors contain non-forfeitable rights to dividends at the same rate as common stock, and are considered participating securities. Basic EPS has been computed by dividing net income by the weighted-average number of common shares outstanding.

The following is a reconciliation of the numerator and denominator of the diluted earnings per share computations for the periods presented below.

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions, except share amounts)	2017	2016	2017	2016
Numerator:				
Net income	$12.7	$ 14.6	$30.0	$ 37.9
Less: Allocation to participating securities	(0.3)	(0.3)	(0.6)	(0.6)
Net income allocated to common stockholders	$12.4	$ 14.3	$29.4	$ 37.3
Denominator:				
Weighted average number of:				
Common shares outstanding	18,447,053	18,138,754	18,365,919	18,461,063
Dilutive potential common shares outstanding:				
Share-based awards	255,075	183,697	293,199	194,609
Diluted weighted-average shares	18,702,128	18,322,451	18,659,118	18,655,672

The dilutive effect of share-based awards is reflected in diluted earnings per share by application of the treasury stock method, which includes consideration of unamortized share-based compensation expense required under the Compensation – Stock Compensation Topic of the ASC.

Options to purchase 210,543 and 1,009,055 shares of common stock for the three months ended June 30, 2017 and 2016, respectively, and options to purchase 242,778 and 933,678 shares of common stock for the nine months ended June 30, 2017 and 2016, respectively, were excluded from the calculation of diluted earnings per share as they would have been anti-dilutive.

Note 3 – Assets and Liabilities, at Fair Value

The Company’s financial and non-financial assets and liabilities reported at fair value on a recurring basis are included in the following captions on the condensed consolidated balance sheets:

- Cash and cash equivalents
- Cash, securities and other assets segregated under federal and other regulations
- Deposits with and receivables from exchange-clearing organizations
- Deposits with and receivables from broker-dealers, clearing organizations and counterparties
- Financial instruments owned
- Physical commodities inventory
- Accounts payable and other accrued liabilities
- Payables to broker-dealers, clearing organizations and counterparties
- Financial instruments sold, not yet purchased

Fair Value Hierarchy

The majority of financial assets and liabilities on the condensed consolidated balance sheets are reported at fair value. Cash is reported at the balance held at financial institutions. Cash equivalents includes money market funds, which are valued at period-end at the net asset value provided by the fund’s administrator, and certificates of deposit, which are stated at cost plus accrued interest, which approximates fair value. Cash, securities and other assets segregated under federal and other regulations include the value of cash collateral as well as the value of other pledged investments, primarily U.S. Treasury bills, obligations issued by government sponsored entities, and commodities warehouse receipts. Deposits with and receivables from exchange-clearing organizations, broker-dealers, clearing organizations and counterparties and payables to broker-dealers, clearing organizations and counterparties include the value of cash collateral as well as the value of money market funds and other pledged investments, primarily U.S. Treasury bills, obligations issued by government sponsored entities, and mortgage-backed and asset-backed securities. These balances also include the fair value of exchange-traded futures and options on futures and exchange-cleared swaps and options determined by prices on the applicable exchange. Financial instruments owned and sold, not yet purchased include the value of common and preferred stock and American Depository Receipts (“ADRs”), exchangeable foreign

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ordinary equities and ADRs, U.S. and foreign government obligations, corporate and municipal bonds, derivative financial instruments, exchange stock, commodities warehouse receipts and leases, mutual funds and investments in managed funds. The fair value of exchange common stock is determined by quoted market prices. Physical commodities inventory includes precious metals that are a part of the trading activities of the regulated broker-dealer subsidiary and is recorded at fair value using spot prices. Physical commodities inventory also includes agricultural and energy commodities that are part of the trading activities of a non-broker dealer subsidiary and are also recorded at fair value using spot prices. The carrying value of securities purchased under agreements to resell, securities borrowed, receivables from customers, net, notes receivable, net, securities sold under agreements to repurchase, and securities loaned approximates fair value due to their short-term nature. Payables to lenders under loans carry variable rates of interest and thus approximate fair value.

Deposits with and receivables from broker-dealers, clearing organizations and counterparties include amounts receivable for securities sold but not yet delivered by the Company on settlement date (“fails-to-deliver”) and net receivables arising from unsettled trades. Payables to broker-dealers, clearing organizations and counterparties primarily include amounts payable for securities purchased, but not yet received by the Company on settlement date (“fails-to-receive”), net payables arising from unsettled trades, and bonds loaned transactions. Due to their short-term nature, deposits with and receivables from and payables to broker-dealers, clearing organizations and counterparties approximate fair value.

The fair value estimates presented in the condensed consolidated financial statements are based on pertinent information available to management as of June 30, 2017 and September 30, 2016. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these condensed consolidated financial statements since that date and current estimates of fair value may differ significantly from the amounts presented in the condensed consolidated financial statements.

Cash equivalents, securities, selected physical commodities inventory, commodities warehouse receipts, derivative financial instruments, commodities leases, exchange common stock and contingent liabilities are carried at fair value, on a recurring basis, and are classified and disclosed into three levels in the fair value hierarchy.

Precious metals inventory held by subsidiaries that are not broker-dealers are valued at fair value on a non-recurring basis. Except as disclosed in Note 6, the Company did not have any fair value adjustments for assets or liabilities measured at fair value on a non-recurring basis as of June 30, 2017 and September 30, 2016.

The three levels of the fair value hierarchy under the Fair Value Measurement Topic of the ASC are:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices for identical or similar assets or liabilities in markets that are less active, that is, markets in which there are few transactions for the asset or liability that are observable for substantially the full term; and

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

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The following tables set forth the Company’s financial and nonfinancial assets and liabilities accounted for at fair value, on a recurring basis, as of June 30, 2017 by level in the fair value hierarchy.

	June 30, 2017				
(in millions)	Level 1	Level 2	Level 3	Netting and Collateral (1)	Total
Assets:					
Unrestricted cash equivalents - certificate of deposits	$4.9	$—	$ —	$—	$4.9
Commodities warehouse receipts	12.2	—	—	—	12.2
U.S. government obligations	—	229.6	—	—	229.6
Securities and other assets segregated under federal and other regulations	12.2	229.6	—	—	241.8
U.S. government obligations	—	295.5	—	—	295.5
Derivatives	1,893.9	—	—	(1,956.9)	(63.0)
Deposits with and receivables from exchange-clearing organizations	1,893.9	295.5	—	(1,956.9)	232.5
"To be announced" (TBA) and forward settling securities	—	6.5	—	—	6.5
Derivatives	—	103.2	—	(87.2)	16.0
Deposits with and receivables from broker-dealers, clearing organizations and counterparties	—	109.7	—	(87.2)	22.5
Common and preferred stock and ADRs	24.3	2.5	0.2	—	27.0
Exchangeable foreign ordinary equities and ADRs	10.4	0.1	—	—	10.5
Corporate and municipal bonds	2.2	2.2	—	—	4.4
U.S. government obligations	—	524.7	—	—	524.7
Foreign government obligations	—	44.4	—	—	44.4
Agency mortgage-backed and asset-backed securities	—	932.0	—	—	932.0
Derivatives	207.0	2,074.5	—	(2,077.7)	203.8
Commodities leases	—	122.7	—	(107.2)	15.5
Commodities warehouse receipts	3.5	—	—	—	3.5
Exchange firm common stock	7.5	—	—	—	7.5
Mutual funds and other	5.8	—	—	—	5.8
Financial instruments owned	260.7	3,703.1	0.2	(2,184.9)	1,779.1
Physical commodities inventory	84.4	—	—	—	84.4
Total assets at fair value	$2,256.1	$4,337.9	$ 0.2	$(4,229.0)	$2,365.2
Liabilities:					
Accounts payable and other accrued liabilities - contingent liabilities	$—	$—	$ 0.9	$—	$0.9
TBA and forward settling securities	—	3.4	—	—	3.4
Derivatives	1,858.5	95.0	—	(1,953.5)	—
Payable to broker-dealers, clearing organizations and counterparties	1,858.5	98.4	—	(1,953.5)	3.4
Common and preferred stock and ADRs	40.0	0.5	—	—	40.5
Exchangeable foreign ordinary equities and ADRs	9.7	0.8	—	—	10.5
U.S. government obligations	—	348.8	—	—	348.8
Foreign government obligations	—	11.2	—	—	11.2
Mortgage-backed securities	—	0.4	—	—	0.4
Derivatives	208.6	2,328.6	—	(2,257.2)	280.0
Commodities leases	—	195.4	—	(143.9)	51.5
Financial instruments sold, not yet purchased	258.3	2,885.7	—	(2,401.1)	742.9

Total liabilities at fair value	$2,116.8	$2,984.1	$ 0.9	$(4,354.6)	$747.2

(1) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

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The following table sets forth the Company's financial and nonfinancial assets and liabilities accounted for at fair value, on a recurring basis, as of September 30, 2016 by level in the fair value hierarchy.

	September 30, 2016				
(in millions)	Level 1	Level 2	Level 3	Netting and Collateral (1)	Total
Assets:					
Unrestricted cash equivalents - certificates of deposits	$7.1	$—	$ —	$—	$7.1
Commodities warehouse receipts	23.3	—	—	—	23.3
U.S. government obligations	—	595.5	—	—	595.5
Securities and other assets segregated under federal and other regulations	23.3	595.5	—	—	618.8
Money market funds	512.7	—	—	—	512.7
U.S. government obligations	—	472.1	—	—	472.1
Derivatives	2,149.9	—	—	(2,266.2)	(116.3)
Deposits with and receivables from exchange-clearing organizations	2,662.6	472.1	—	(2,266.2)	868.5
TBA and forward settling securities	—	0.3	—	—	0.3
Derivatives	—	8.0	—	(23.5)	(15.5)
Deposits with and receivables from broker-dealers, clearing organizations and counterparties	—	8.3	—	(23.5)	(15.2)
Common and preferred stock and ADRs	34.6	1.7	0.2	—	36.5
Exchangeable foreign ordinary equities and ADRs	25.2	0.5	—	—	25.7
Corporate and municipal bonds	36.9	0.9	3.0	—	40.8
U.S. government obligations	—	514.9	—	—	514.9
Foreign government obligations	—	14.6	—	—	14.6
Agency mortgage-backed and asset-backed securities	—	747.5	—	—	747.5
Derivatives	206.9	1,350.8	—	(1,363.8)	193.9
Commodities leases	—	137.2	—	(129.1)	8.1
Commodities warehouse receipts	8.9	—	—	—	8.9
Exchange firm common stock	6.4	—	—	—	6.4
Mutual funds and other	8.8	—	—	—	8.8
Financial instruments owned	327.7	2,768.1	3.2	(1,492.9)	1,606.1
Physical commodities inventory, net - precious metals	71.2	—	—	—	71.2
Total assets at fair value	$3,091.9	$3,844.0	$ 3.2	$(3,782.6)	$3,156.5
Liabilities:					
Accounts payable and other accrued liabilities - contingent liabilities	$—	$—	$ 0.8	$—	$0.8
TBA and forward settling securities	—	2.6	—	0.9	3.5
Derivatives	1,961.7	97.5	—	(2,059.2)	—
Payable to broker-dealers, clearing organizations and counterparties	1,961.7	100.1	—	(2,058.3)	3.5
Common and preferred stock and ADRs	23.5	0.4	—	—	23.9
Exchangeable foreign ordinary equities and ADRs	25.3	0.5	—	—	25.8
U.S. government obligations	—	509.8	—	—	509.8
Corporate and municipal bonds	6.9	—	—	—	6.9
Derivatives	199.4	1,319.3	—	(1,307.8)	210.9
Commodities leases	—	207.8	—	(145.7)	62.1
Financial instruments sold, not yet purchased	255.1	2,037.8	—	(1,453.5)	839.4

Total liabilities at fair value	$2,216.8	$2,137.9	$ 0.8	$(3,511.8)	$843.7

(1) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

Realized and unrealized gains and losses are included in 'trading gains, net' and 'interest income' in the condensed consolidated income statements.

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Information on Level 3 Financial Assets and Liabilities

The Company's financial assets at fair value classified in level 3 of the fair value hierarchy as of June 30, 2017 and September 30, 2016 are summarized below:

(in millions)	June 30, 2017	September 30, 2016
Total level 3 assets	$0.2	$ 3.2
Level 3 assets for which the Company bears economic exposure	$0.2	$ 3.2
Total assets	$6,195.9	$ 5,950.3
Total assets at fair value	$2,365.2	$ 3,156.5
Total level 3 assets as a percentage of total assets	— %	0.1 %
Level 3 assets for which the Company bears economic exposure as a percentage of total assets	— %	0.1 %
Total level 3 assets as a percentage of total financial assets at fair value	— %	0.1 %

The following tables set forth a summary of changes in the fair value of the Company's level 3 financial assets and liabilities during the three and nine months ended June 30, 2017 and 2016, including a summary of unrealized gains (losses) during the respective periods on the Company's level 3 financial assets and liabilities still held as of June 30, 2017.

Level 3 Financial Assets and Financial Liabilities For the Three Months Ended June 30, 2017

(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Assets:							
Common stock and ADRs	$0.2	$ —	$ —	$ —	$ —	$ —	$ 0.2
	$0.2	$ —	$ —	$ —	$ —	$ —	$ 0.2

(in millions)	Balances at beginning of period	Realized (gains) losses during period	Unrealized (gains) losses during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Liabilities:							
Contingent liabilities	$0.9	$ —	$ —	$ —	$ —	$ —	$ 0.9

Level 3 Financial Assets and Financial Liabilities For the Nine Months Ended June 30, 2017

(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Assets:							
Common stock and ADRs	$0.2	$ —	$ —	$ —	$ —	$ —	$ 0.2
Corporate and municipal bonds	3.0	—	—	—	(3.0)	—	—
	$3.2	$ —	$ —	$ —	$ (3.0)	$ —	$ 0.2

(in millions)	Balances at beginning of period	Realized (gains) losses during period	Unrealized (gains) losses during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Liabilities:							
Contingent liabilities	$0.8	$ —	$ 0.1	$ —	$ —	$ —	$ 0.9

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Level 3 Financial Assets and Financial Liabilities For the Three Months Ended June 30, 2016

(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Assets:							
Common stock and ADRs	$0.3	$ —	$ —	$ —	$ —	$ —	$ 0.3
Corporate and municipal bonds	3.3	—	(0.3)	—	—	—	3.0
	$3.6	$ —	$ (0.3)	$ —	$ —	$ —	$ 3.3

(in millions)	Balances at beginning of period	Realized (gains) losses during period	Unrealized (gains) losses during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Liabilities:							
Contingent liabilities	$1.5	$ —	$ —	$ —	$ (0.7)	$ —	$ 0.8

Level 3 Financial Assets and Financial Liabilities For the Nine Months Ended June 30, 2016

(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Assets:							
Common stock and ADRs	$0.5	$ —	$ (0.2)	$ —	$ —	$ —	$ 0.3
Corporate and municipal bonds	3.2	—	(0.2)	—	—	—	3.0
	$3.7	$ —	$ (0.4)	$ —	$ —	$ —	$ 3.3

(in millions)	Balances at beginning of period	Realized (gains) losses during period	Unrealized (gains) losses during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Liabilities:							
Contingent liabilities	$3.3	$ —	$ 0.3	$ —	$ (2.8)	$ —	$ 0.8

The Company had debentures issued by a single asset owning company of Suriwongse Hotel located in Chiang Mai, Thailand. As of September 30, 2016, the Company’s investment in the hotel was $3.0 million, and was included within the corporate and municipal bonds classification in the level 3 financial assets and financial liabilities tables. In December 2016, the Company sold the debentures and collected an amount approximating their carrying value.

The Company is required to make additional future cash payments based on certain financial performance measures of its acquired businesses. The Company is required to remeasure the fair value of contingent consideration arrangements on a recurring basis in accordance with the guidance in the Business Combinations Topic of the ASC. The Company has classified its liabilities for the contingent consideration within level 3 of the fair value hierarchy because the fair value is determined using significant unobservable inputs, which include projected cash flows. The estimated fair value of the earn-outs is based upon management-developed forecasts, a level 3 input in the fair value hierarchy. These cash flows are discounted employing present value techniques in arriving at fair value. The discount rate was developed using market participant company data and there have been no significant changes in the interest rate environment. From the dates of acquisition to June 30, 2017, certain acquisitions have had changes in the estimates of undiscounted cash flows, based on actual performances fluctuating from estimates. The fair value of the contingent consideration increased by less than $0.1 million and $0.1 million during the three months ended June 30, 2017 and 2016 and by less than $0.1 million and $0.3 million during the nine months ended June 30, 2017 and 2016, respectively, with the corresponding amount classified as ‘other’ in the condensed consolidated income statements. The Company reports transfers in and out of levels 1, 2 and 3, as applicable, using the fair value of the securities as of the beginning of the reporting period in which the transfer occurred. The Company did not have any transfers in and out of levels 1, 2, and 3 during the three and nine months ended June 30, 2017 and 2016.

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Note 4 – Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

The Company is party to certain financial instruments with off-balance sheet risk in the normal course of its business. The Company has sold financial instruments that it does not currently own and will therefore be obliged to purchase such financial instruments at a future date. The Company has recorded these obligations in the condensed consolidated financial statements as of June 30, 2017 and September 30, 2016 at the fair values of the related financial instruments. The Company will incur losses if the fair value of the underlying financial instruments increases subsequent to June 30, 2017. The total financial instruments sold, not yet purchased of $742.9 million and $839.4 million as of June 30, 2017 and September 30, 2016, respectively, includes $280.0 million and $210.9 million for derivative contracts, respectively, which represented a liability to the Company based on their fair values as of June 30, 2017 and September 30, 2016.

Derivatives

The Company utilizes derivative products in its trading capacity as a dealer in order to satisfy customer needs and mitigate risk. The Company manages risks from both derivatives and non-derivative cash instruments on a consolidated basis. The risks of derivatives should not be viewed in isolation, but in aggregate with the Company’s other trading activities. The majority of the Company’s derivative positions are included in the condensed consolidated balance sheets in ‘deposits with and receivables from exchange-clearing organizations’, ‘deposits with and receivables from broker-dealers, clearing organizations and counterparties’, ‘financial instruments owned, at fair value’, ‘financial instruments sold, not yet purchased, at fair value’ and payables to broker-dealers, clearing organizations and counterparties’.

The Company employs an interest rate risk management strategy using derivative financial instruments in the form of interest rate swaps as well as outright purchases of medium-term U.S. Treasury notes to manage a portion of the aggregate interest rate position. The Company’s objective when using interest rate swaps under the strategy, is to invest certain amounts of customer deposits in high quality, short-term investments and swap the resulting variable interest earnings into medium-term interest earnings. When used, the risk mitigation of these interest rate swaps are not within the documented hedging designation requirements of the Derivatives and Hedging Topic of the ASC, and as a result are recorded at fair value, with changes in the fair value of the interest rate swaps recorded within 'trading gains, net' in the condensed consolidated income statements. At September 30, 2016, the Company had $375.0 million in notional principal of interest rate swaps outstanding with a weighted-average remaining life of 15 months. During the nine months ended June 30, 2017, the Company settled these interest rate swaps in advance of their original maturity date.

Listed below are the fair values of the Company’s derivative assets and liabilities as of June 30, 2017 and September 30, 2016. Assets represent net unrealized gains and liabilities represent net unrealized losses.

	June 30, 2017		September 30, 2016	
(in millions)	Assets (1)	Liabilities (1)	Assets (1)	Liabilities (1)
Derivative contracts not accounted for as hedges:				
Exchange-traded commodity derivatives	$1,641.2	$ 1,719.3	$2,022.1	$ 1,920.5
OTC commodity derivatives	1,998.3	2,165.0	1,217.0	1,188.9
Exchange-traded foreign exchange derivatives	32.2	23.5	12.2	7.5
OTC foreign exchange derivatives	384.1	371.0	346.5	290.2
Exchange-traded interest rate derivatives	187.4	172.6	78.7	120.5
Equity index derivatives	35.4	39.3	39.1	50.3
TBA and forward settling securities	6.5	3.4	0.3	2.6
Gross fair value of derivative contracts	4,285.1	4,494.1	3,715.9	3,580.5
Impact of netting and collateral	(4,121.8)	(4,210.7)	(3,653.5)	(3,366.1)
Total fair value included in ‘Deposits with and receivables from exchange-clearing organizations’	$(63.0)		$(116.3)	
Total fair value included in ‘Deposits with and receivables from broker-dealers, clearing organizations and counterparties’	$22.5		$(15.2)	
	$203.8		$193.9	

Total fair value included in 'Financial instruments owned, at fair value'		
Total fair value included in 'Payables to broker-dealers, clearing organizations and counterparties	$ 3.4	$ 3.5
Fair value included in 'Financial instruments sold, not yet purchased, at fair value'	$ 280.0	$ 210.9

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(1) As of June 30, 2017 and September 30, 2016, the Company's derivative contract volume for open positions were approximately 4.1 million and 4.0 million contracts, respectively.

The Company's derivative contracts are principally held in its Commercial Hedging and Clearing and Execution Services segments. The Company assists its Commercial Hedging segment customers in protecting the value of their future production by entering into option or forward agreements with them on an OTC basis. The Company also provides its Commercial Hedging segment customers with option products, including combinations of buying and selling puts and calls. The Company mitigates its risk by offsetting the customer's transaction simultaneously with one of the Company's trading counterparties or with a similar but not identical exchange-traded position. The risk mitigation of these offsetting trades is not within the documented hedging designation requirements of the Derivatives and Hedging Topic of the ASC. These derivative contracts are traded along with cash transactions because of the integrated nature of the markets for these products. The Company manages the risks associated with derivatives on an aggregate basis along with the risks associated with its proprietary trading and market-making activities in cash instruments as part of its firm-wide risk management policies. In particular, the risks related to derivative positions may be partially offset by inventory, unrealized gains in inventory or cash collateral paid or received.

The Company has derivative instruments, which consist of mortgage-backed TBA securities and forward settling transactions that are used to manage risk exposures in the trading inventory of the Company's domestic institutional fixed income business. The fair value on these transactions are recorded in deposits with and receivables from or payables to broker-dealers, clearing organizations and counterparties. Realized and unrealized gains and losses on securities and derivative transactions are reflected in 'trading gains, net'.

The Company enters into TBA securities transactions for the sole purpose of managing risk associated with the purchase of mortgage pass-through securities. TBA securities are included within deposits with and receivables from and payables to broker-dealers, clearing organizations and counterparties. Forward settling securities represent non-regular way securities and are included in financial instruments owned and sold. As of June 30, 2017 and September 30, 2016, these transactions are summarized as follows:

(in millions)	June 30, 2017		September 30, 2016	
	Gain / (Loss)	Notional Amounts	Gain / (Loss)	Notional Amounts
Unrealized gain on TBA securities purchased within receivables from broker-dealers, clearing organizations and counterparties and related notional amounts (1)	$—	$16.0	$0.8	$289.8
Unrealized loss on TBA securities purchased within receivables from broker-dealers, clearing organizations and counterparties and related notional amounts (1)	$(2.7)	$820.6	$(0.8)	$485.5
Unrealized gain on TBA securities sold within payables to broker-dealers, clearing organizations and counterparties and related notional amounts (1)	$6.0	$(1,549.1)	$1.3	$(702.3)
Unrealized loss on TBA securities sold within payables to broker-dealers, clearing organizations and counterparties and related notional amounts (1)	$—	$(19.4)	$(1.7)	$(754.3)
Unrealized gain on forward settling securities purchased within receivables from broker-dealers, clearing organizations and counterparties and related notional amounts	$0.5	$(310.9)	$0.1	$607.9
Unrealized (loss) gain on forward settling securities sold within receivables from and payables to broker-dealers, clearing organizations and counterparties and related notional amounts	$(0.7)	$365.3	$0.2	$(470.4)

(1) The notional amounts of these instruments reflect the extent of the Company's involvement in TBA and forward settling securities and do not represent risk of loss due to counterparty non-performance.

The following table sets forth the Company's gains (losses) related to derivative financial instruments for the three and nine months ended June 30, 2017 and 2016 in accordance with the Derivatives and Hedging Topic of the ASC. The net gains set forth below are included in ‘trading gains, net’ in the condensed consolidated income statements.

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2017	2016	2017	2016
Commodities	$22.0	$5.6	$40.8	$30.6
Foreign exchange	1.7	0.2	3.7	3.8
Interest rate	—	1.0	(1.0)	2.0
TBA and forward settling securities	(5.4)	(6.6)	3.1	(11.6)
Net gains from derivative contracts	$18.3	$0.2	$46.6	$24.8

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Credit Risk

In the normal course of business, the Company purchases and sells financial instruments, commodities and foreign currencies as either principal or agent on behalf of its customers. If either the customer or counterparty fails to perform, the Company may be required to discharge the obligations of the nonperforming party. In such circumstances, the Company may sustain a loss if the fair value of the financial instrument or foreign currency is different from the contract value of the transaction.

The majority of the Company’s transactions and, consequently, the concentration of its credit exposure are with commodity exchanges, customers, broker-dealers and other financial institutions. These activities primarily involve collateralized and uncollateralized arrangements and may result in credit exposure in the event that a counterparty fails to meet its contractual obligations. The Company’s exposure to credit risk can be directly impacted by volatile financial markets, which may impair the ability of counterparties to satisfy their contractual obligations. The Company seeks to control its credit risk through a variety of reporting and control procedures, including establishing credit and/or position limits based upon a review of the counterparties’ financial condition and credit ratings. The Company monitors collateral levels on a daily basis for compliance with regulatory and internal guidelines and requests changes in collateral levels as appropriate.

The Company is a party to financial instruments in the normal course of its business through customer and proprietary trading accounts in exchange-traded and OTC derivative instruments. These instruments are primarily the result of the execution of orders for commodity futures, options on futures, OTC swaps and options and spot and forward foreign currency contracts on behalf of its customers, substantially all of which are transacted on a margin basis. Such transactions may expose the Company to significant credit risk in the event margin requirements are not sufficient to fully cover losses which customers may incur. The Company controls the risks associated with these transactions by requiring customers to maintain margin deposits in compliance with individual exchange regulations and internal guidelines. The Company monitors required margin levels daily and, therefore, may require customers to deposit additional collateral or reduce positions when necessary. The Company also establishes credit limits for customers, which are monitored daily. The Company evaluates each customer’s creditworthiness on a case by case basis. Clearing, financing, and settlement activities may require the Company to maintain funds with or pledge securities as collateral with other financial institutions. Generally, these exposures to both customers and exchanges are subject to master netting, or customer agreements, which reduce the exposure to the Company by permitting receivables and payables with such customers to be offset in the event of a customer default. Management believes that the margin deposits held as of June 30, 2017 and September 30, 2016 were adequate to minimize the risk of material loss that could be created by positions held at that time. Additionally, the Company monitors collateral fair value on a daily basis and adjusts collateral levels in the event of excess market exposure. Generally, these exposures to both customers and counterparties are subject to master netting or customer agreements which reduce the exposure to the Company.

Derivative financial instruments involve varying degrees of off-balance sheet market risk whereby changes in the fair values of underlying financial instruments may result in changes in the fair value of the financial instruments in excess of the amounts reflected in the condensed consolidated balance sheets. Exposure to market risk is influenced by a number of factors, including the relationships between the financial instruments and the Company’s positions, as well as the volatility and liquidity in the markets in which the financial instruments are traded. The principal risk components of financial instruments include, among other things, interest rate volatility, the duration of the underlying instruments and changes in foreign exchange rates. The Company attempts to manage its exposure to market risk through various techniques. Aggregate market limits have been established and market risk measures are routinely monitored against these limits.

Note 5 – Receivables From Customers, Net and Notes Receivable, Net

The allowance for doubtful accounts related to receivables from customers was $7.6 million as of June 30, 2017 and $9.5 million as of September 30, 2016. The allowance for doubtful accounts related to notes receivable was $0.0 million and $0.2 million as of June 30, 2017 and September 30, 2016, respectively.

During the nine months ended June 30, 2017, the Company recorded bad debt expense of $3.9 million, primarily related to $3.8 million of LME Metals customer deficits in the Company’s Commercial Hedging segment. During the nine months ended June 30, 2016, the Company recorded bad debt expense of $4.6 million, primarily related to $1.5

million of customer receivables in the Physical Ag & Energy component of the Physical Commodities segment, $2.7 million of customer deficits in the Commercial Hedging segment and $0.3 million related to short-term notes receivable origination in the Securities segment.

The Company originates short-term notes receivable from customers with the outstanding balances typically being insured 90% to 98% by a third party, including accrued interest, subject to applicable deductible amounts. The total balance outstanding under insured notes receivable was $2.1 million and $5.0 million as of June 30, 2017 and September 30, 2016, respectively. The Company has sold $2.1 million and $4.6 million of the insured portion of the notes through non-recourse participation agreements with other third parties as of June 30, 2017 and September 30, 2016, respectively. The Company completed its exit of the majority of this activity during fiscal 2016. The Company believes the run-off of the remaining activity will have a minimal impact on the Company. See discussion of notes receivable related to commodity repurchase agreements in Note 10.

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Note 6 – Physical Commodities Inventory

The Company's inventories consist of finished physical commodities. Inventories by component of the Company's Physical Commodities segment are shown below.

(in millions)	June 30, 2017	September 30, 2016
Physical Ag & Energy[1]	$108.6	$ 65.9
Precious metals - held by broker-dealer subsidiary[2]	11.6	5.3
Precious metals - held by non-broker-dealer subsidiaries[3]	52.3	52.6
Physical commodities inventory	$172.5	$ 123.8

[1] Physical Ag & Energy maintains agricultural and energy commodity inventories, including corn, soybeans, wheat, dried distillers grain, canola, sorghum, coffee, cocoa, coal and others. The agricultural commodity inventories are carried at net realizable value, which approximates fair value less disposal costs, with changes in net realizable value included as a component of 'cost of sales of physical commodities' on the condensed consolidated income statements. The agricultural inventories have reliable, readily determinable and realizable market prices, have relatively insignificant costs of disposal and are available for immediate delivery.

[2] Precious metals held by the Company's subsidiary, INTL FCStone Ltd, a United Kingdom based broker-dealer subsidiary, is measured at fair value, with changes in fair value included as a component of 'trading gains, net' on the condensed consolidated income statements, in accordance with U.S. GAAP accounting requirements for broker-dealers.

[3] Precious metals inventory held by subsidiaries that are not broker-dealers are valued at the lower of cost or market value.

The Company has recorded lower of cost or market adjustments for certain precious metals inventory of $0.5 million and $0.6 million as of June 30, 2017 and September 30, 2016, respectively. The adjustments are included in 'cost of sales of physical commodities' in the condensed consolidated income statements.

Note 7 – Goodwill

The carrying value of goodwill is allocated to the Company's operating segments as follows:

(in millions)	June 30, 2017	September 30, 2016
Commercial Hedging	$ 30.7	$ 30.7
Global Payments	6.3	6.3
Physical Commodities	2.4	2.4
Securities	8.1	8.1
Goodwill	$ 47.5	$ 47.5

Note 8 – Intangible Assets

During the nine months ended June 30, 2017 , the Company recorded additional intangible assets of $6.0 million as part of the ICAP acquisition. See Note 16 - Acquisitions for additional discussion.

The gross and net carrying values of intangible assets as of the balance sheet dates, by major intangible asset class are as follows:

	June 30, 2017			September 30, 2016		
(in millions)	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Intangible assets subject to amortization						
Trade name	$1.1	$ (1.0)	$ 0.1	$1.1	$ (0.6)	$ 0.5
Software programs/platforms	2.7	(2.4)	0.3	2.7	(2.4)	0.3
Customer base	20.0	(7.4)	12.6	14.0	(5.7)	8.3
Total intangible assets	$23.8	$ (10.8)	$ 13.0	$17.8	$ (8.7)	$ 9.1

Amortization expense related to intangible assets was $2.1 million and $1.2 million for the nine months ended June 30, 2017 and 2016, respectively.

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As of June 30, 2017, the estimated future amortization expense was as follows:

(in millions)	
Fiscal 2017 (remaining three months)	$0.7
Fiscal 2018	2.2
Fiscal 2019	2.2
Fiscal 2020	2.0
Fiscal 2021 and thereafter	5.9
	$13.0

Note 9 – Credit Facilities

Variable-Rate Credit Facilities

The Company has four committed credit facilities under which the Company and its subsidiaries may borrow up to $532.0 million, subject to the terms and conditions for these facilities. The amounts outstanding under these credit facilities are short term borrowings and carry variable rates of interest, thus approximating fair value. The Company's committed credit facilities consist of the following:

- $262.0 million facility available to INTL FCStone Inc. for general working capital requirements. In May 2017, the Company executed a fourth amendment to the credit facility increasing the available commitment from $247.0 million to $262.0 million.
- $75.0 million facility available to the Company's wholly owned subsidiary, INTL FCStone Financial Inc., for short-term funding of margin to commodity exchanges. The facility is subject to annual review and guaranteed by INTL FCStone Inc.
- $170.0 million facility available to the Company's wholly owned subsidiary, FCStone Merchant Services, LLC, for financing traditional commodity financing arrangements and commodity repurchase agreements. The facility is subject to annual review and is guaranteed by INTL FCStone Inc. In May 2017, the Company executed a third amendment to the credit facility increasing the available commitment from $100.0 million to $170.0 million.
- $25.0 million facility available to the Company's wholly owned subsidiary, INTL FCStone Ltd, for short-term funding of margin to commodity exchanges. The facility is subject to annual review and is guaranteed by INTL FCStone Inc.

The Company also has a secured, uncommitted loan facility, under which the Company's wholly owned subsidiary, INTL FCStone Financial Inc. may borrow up to $50.0 million, collateralized by commodity warehouse receipts, to facilitate U.S. commodity exchange deliveries of its customers, subject to certain terms and conditions of the credit agreement.

The Company also has a secured uncommitted loan facility under which the Company's wholly owned subsidiary, INTL FCStone Ltd may borrow up to approximately $25.0 million, collateralized by commodity warehouse receipts, to facilitate financing of commodities under repurchase agreement services to its customers, subject to certain terms and conditions of the credit agreement.

The Company also has a secured uncommitted loan facility under which the Company's wholly owned subsidiary Sterne, Agee & Leach, Inc. may borrow for short term funding of firm and customer margin requirements, subject to certain terms and conditions of the agreement. The uncommitted maximum amount available to be borrowed is not specified, and all requests for borrowing are subject to the sole discretion of the lender.

Sterne, Agee & Leach, Inc. also has a secured uncommitted loan facility under which it may borrow up to $100.0 million for short term funding of firm and customer margin requirements, subject to certain terms and conditions of the agreement.

Note Payable to Bank

The Company has a loan from a commercial bank, secured by equipment purchased with the proceeds. The note is payable in monthly installments, ending in March 2020. The note bears interest at a rate per annum equal to LIBOR plus 2.00%.

Senior Unsecured Notes

In July 2013, the Company completed an offering of $45.5 million aggregate principal amount of the Company's 8.5% Senior Notes due 2020 (the "Notes"). The net proceeds of the sale of the Notes were used for general corporate purposes. On September 15, 2016, the Company provided notice, through the trustee of the Notes, to the record holders of the Notes that the Company would redeem the outstanding $45.5 million aggregate principal amount of the Notes in full. On October 15, 2016,

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the Company redeemed the Notes at a price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not including, the redemption date of October 15, 2016.

The following table sets forth a listing of credit facilities, the committed amounts as of June 30, 2017 on the facilities, and outstanding borrowings on the facilities as well as indebtedness on a promissory note and on senior notes as of June 30, 2017 and September 30, 2016:

(in millions)

Credit Facilities				Amounts Outstanding	
Borrower	Security	Renewal / Expiration Date	Total Commitment	June 30, 2017	September 30, 2016
INTL FCStone Inc.	Pledged shares of certain subsidiaries	March 18, 2019	$ 262.0	$ 185.0	$ 136.5
INTL FCStone Financial Inc.	None	April 5, 2018	75.0	—	—
INTL FCStone Financial Inc.	Commodity warehouse receipts	n/a	—	—	—
FCStone Merchants Services, LLC	Certain commodities assets	May 1, 2018	170.0	57.5	43.5
INTL FCStone Ltd	None	October 27, 2017	25.0	—	—
INTL FCStone Ltd	Commodity warehouse receipts	n/a	—	—	—
Sterne, Agee & Leach, Inc.	Certain pledged securities	n/a	—	—	—
			$ 532.0	242.5	180.0
Note Payable to Bank					
Monthly installments, due March 2020 and secured by certain equipment				2.2	2.8
Senior Unsecured Notes					
8.50% senior notes, due July 30, 2020 (redeemed on October 15, 2016)				—	44.5
Total indebtedness				$ 244.7	$ 227.3

As reflected above, $270.0 million of the Company’s committed credit facilities are scheduled to expire within twelve months of this filing. The Company intends to renew or replace this facility when it expires, and based on the Company’s liquidity position and capital structure, the Company believes it will be able to do so.

The Company’s credit facility agreements contain financial covenants relating to financial measures on a consolidated basis, as well as on a certain stand-alone subsidiary basis, including minimum tangible net worth, minimum regulatory capital, minimum net unencumbered liquid assets, maximum net loss, minimum fixed charge coverage ratio and maximum funded debt to net worth ratio. Failure to comply with these covenants could result in the debt becoming payable on demand. As of June 30, 2017, the Company was in compliance with all of its financial covenants under its credit facilities.

Note 10 – Commodity and Other Repurchase Agreements and Collateralized Transactions

Commodity Repurchase Arrangements

The Company’s outstanding notes receivable in connection with sale/repurchase agreements, whereby customers sell certain commodity inventory and agree to repurchase the commodity inventory at a future date at a fixed rate, as of June 30, 2017 and September 30, 2016 were $0.6 million and $1.5 million, respectively.

Resale and Repurchase Agreements, Securities Lending and Borrowing Agreements, and Margin Securities

The Company enters into securities purchased under agreements to resell, securities sold under agreements to repurchase, securities borrowed and securities loaned transactions to, among other things, finance financial instruments, acquire securities to cover short positions, acquire securities for settlement, and to accommodate counterparties’ needs. These agreements are recorded at their contractual amounts plus accrued interest. The related interest is recorded in the condensed consolidated income statements as interest income or interest expense, as applicable. In connection with these agreements and transactions, it is the policy of the Company to receive or pledge cash or securities to adequately collateralize such agreements and transactions in accordance with general industry guidelines and practices. The value of the collateral is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged, when appropriate. The carrying amounts of these agreements and transactions approximate fair value due to their short-term nature and the level of collateralization.

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The Company pledges financial instruments owned to collateralize repurchase agreements and securities loaned agreements. At June 30, 2017, financial instruments owned of $171.4 million were pledged as collateral under repurchase agreements and securities loaned agreements. The counterparty has the right to repledge the collateral in connection with these transactions. These financial instruments owned have been pledged as collateral and have been parenthetically disclosed on the condensed consolidated balance sheet.

In addition, as of June 30, 2017, the Company pledged financial instruments owned of $1,277.9 million and securities received under reverse repurchase agreements of which $183.4 million is used to cover collateral for tri-party repurchase agreements. For these securities, the counterparty does not have the right to sell or repledge the collateral.

At June 30, 2017, the Company has accepted collateral that it is permitted by contract to sell or repledge. This collateral consists primarily of securities received in reverse repurchase agreements, securities borrowed agreements, and margin securities held on behalf of correspondent brokers. The fair value of such collateral at June 30, 2017, was $791.7 million of which $345.0 million was used to cover securities sold short which are recorded in financial instruments sold, not yet purchased on the condensed consolidated balance sheet. In the normal course of business, this collateral is used by the Company to cover financial instruments sold, not yet purchased, to obtain financing in the form of repurchase agreements, and to meet counterparties' needs under lending arrangements. At June 30, 2017, substantially all of the above collateral had been delivered against financial instruments sold, not yet purchased or repledged by the Company to obtain financing.

Note 11 – Commitments and Contingencies

Legal Proceedings

From time to time and in the ordinary course of business, the Company is involved in various legal actions and proceedings, including tort claims, contractual disputes, employment matters, workers' compensation claims and collections. The Company carries insurance that provides protection against certain types of claims, up to the policy limits of the insurance.

As of June 30, 2017 and September 30, 2016, the condensed consolidated balance sheets include loss contingency accruals recorded prior to these periods then ended, which are not material, individually or in the aggregate, to the Company's financial position or liquidity. In the opinion of management, possible exposure from loss contingencies in excess of the amounts accrued, is not likely to be material to the Company's earnings, financial position or liquidity.

There have been no material changes to the legal actions and proceedings as compared to September 30, 2016.

Contractual Commitments

Contingent Liability - Acquisition

Under the terms of the purchase agreement related to the acquisition listed below, the Company has an obligation to pay additional consideration if specific conditions and earnings targets are met. In accordance with the Business Combinations Topic of the ASC, the fair value of the additional consideration is recognized as a contingent liability as of the acquisition date. The contingent liability for these estimated additional purchase price considerations of $0.9 million and $0.8 million are included in 'accounts payable and other accrued liabilities' in the condensed consolidated balance sheets as of June 30, 2017 and September 30, 2016. The acquisition date fair value of additional consideration is remeasured to its fair value each reporting period, with changes in fair value recorded in current earnings. The change in fair value during the nine months ended June 30, 2017 and 2016 were increases of $0.1 million and $0.3 million, respectively, and are included in 'other' in the condensed consolidated income statements.

The Company has a contingent liability relating to the January 2015 acquisition of G.X. Clarke, which may result in the payment of additional purchase price consideration. The contingent consideration in no event shall exceed $1.5 million. The estimated total purchase price, including contingent consideration, is $28.7 million as of June 30, 2017, of which $0.9 million remains outstanding and is included in 'accounts payable and other accrued liabilities' in the condensed consolidated balance sheet.

Self-Insurance

The Company self-insures its costs related to medical and dental claims. The Company is self-insured, up to a stop loss amount, for eligible participating employees and retirees, and for qualified dependent medical and dental claims, subject to deductibles and limitations. As of June 30, 2017, the Company had $1.0 million accrued for self-insured medical and dental claims included in 'accounts payable and other liabilities' in the condensed consolidated balance sheet.

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Note 12 – Capital and Other Regulatory Requirements

The Company’s activities are subject to significant governmental regulation, both in the United States and overseas. The subsidiaries of the Company were in compliance with all of their regulatory requirements as of June 30, 2017, as follows:

(in millions)				As of June 30, 2017	
Subsidiary	Regulatory Authority	Jurisdiction	Requirement Type	Actual	Minimum Requirement
INTL FCStone Financial Inc.	SEC and Commodity Futures Trading Commission ("CFTC")	United States	Net capital	$148.3	$ 77.7
INTL FCStone Financial Inc.	CFTC	United States	Segregated funds	$2,075.0	$ 2,024.9
INTL FCStone Financial Inc.	CFTC	United States	Secured funds	$137.8	$ 121.9
Sterne Agee Clearing Inc.	SEC	United States	Net capital	$1.3	$ 0.1
Sterne, Agee & Leach, Inc.	SEC	United States	Net capital	$25.3	$ 2.0
Sterne Agee Financial Services, Inc.	SEC	United States	Net capital	$4.8	$ 0.3
INTL FCStone Ltd(1)	Financial Conduct Authority ("FCA")	United Kingdom	Net capital	$159.5	$ 98.6
INTL FCStone Ltd	FCA	United Kingdom	Segregated funds	$93.1	$ 90.1
INTL Netherlands BV(1)	FCA	United Kingdom	Net capital	$158.8	$ 98.7
INTL FCStone DTVM Ltda.	Brazilian Central Bank and Securities and Exchange Commission of Brazil	Brazil	Capital adequacy	$9.4	$ 0.5
INTL Gainvest S.A.	National Securities Commission ("CNV")	Argentina	Capital adequacy	$5.3	$ 0.2
INTL Gainvest S.A.	CNV	Argentina	Net capital	$0.5	$ 0.1
INTL CIBSA S.A.	CNV	Argentina	Capital adequacy	$7.4	$ 1.0
INTL CIBSA S.A.	CNV	Argentina	Net capital	$4.3	$ 0.5

(1) INTL Netherlands BV is a holding company that includes the ownership equity of INTL FCStone Ltd. The associated net capital amounts and minimum requirements should not be considered in aggregate.

Sterne, Agee & Leach, Inc. is also subject to Rule 15c3-3 of the Securities Exchange Act of 1934, as amended (“Customer Protection Rule”) inclusive of computations for proprietary accounts of broker-dealers (“PABs”). As of June 30, 2017, Sterne, Agee & Leach, Inc. had $1,000 of cash in a Special Reserve Bank Account (“SRBA”) for the exclusive benefit of customers under the Customer Protection Rule pursuant to SEC Rule 15c3-3, Computation for Determination of Reserve Requirements. Also, as of June 30, 2017, Sterne, Agee & Leach, Inc. had $1.8 million of cash in a SRBA pursuant to SEC Rule 15c3-3, Computation for Determination of PAB Reserve Requirements. As of June 30, 2017 , the amount on deposit in both the customers and the PABs SRBA was less than the reserve requirement and additional funds were deposited timely subsequent to period-end.

Certain other non-U.S. subsidiaries of the Company are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate. As of June 30, 2017, these subsidiaries were in compliance with their local capital adequacy requirements.

Note 13 – Other Expenses

Other expenses for the three and nine months ended June 30, 2017 and 2016 consisted of the following:

(in millions)	Three Months Ended June 30, 2017	2016	Nine Months Ended June 30, 2017	2016
Contingent consideration, net	$—	$—	$0.1	$0.3
Insurance	0.7	0.4	2.0	1.1
Advertising, meetings and conferences	1.0	1.2	3.1	4.2
Non-trading hardware and software maintenance and software licensing	3.2	1.8	8.9	4.6
Office supplies and printing	0.6	0.3	1.7	0.9
Other clearing related expenses	0.9	0.5	1.6	1.0
Other non-income taxes	1.2	1.1	3.5	3.2
Other	2.3	1.8	6.9	5.5
Total other expenses	$9.9	$7.1	$27.8	$20.8

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Note 14 – Accumulated Other Comprehensive Loss, Net

Comprehensive income consists of net income and other gains and losses affecting stockholders' equity that, under U.S. GAAP, are excluded from net income. Other comprehensive loss includes net actuarial losses from defined benefit pension plans and foreign currency translation adjustments.

The following table summarizes the changes in accumulated other comprehensive loss, net for the nine months ended June 30, 2017.

(in millions)	Foreign Currency Translation Adjustment	Pension Benefits Adjustment	Accumulated Other Comprehensive Loss
Balances as of September 30, 2016	$ (20.1)	$ (4.5)	$ (24.6)
Other comprehensive loss, net of tax	(2.1)	—	(2.1)
Balances as of June 30, 2017	$ (22.2)	$ (4.5)	$ (26.7)

Note 15 – Income Taxes

In determining the quarterly provision for income taxes, management uses an estimated annual effective tax rate which is based on the expected annual income and statutory tax rates in the various jurisdictions in which it operates. The Company's effective tax rate differs from the U.S. statutory rate primarily due to state and local taxes, and differing statutory tax rates applied to the income of non-U.S. subsidiaries. The Company records the tax effect of certain discrete items, including the effects of changes in tax laws, tax rates and adjustments with respect to valuation allowances or other unusual or nonrecurring tax adjustments, in the interim period in which they occur, as an addition to, or reduction from, the income tax provision, rather than being included in the estimated effective annual income tax rate. In addition, jurisdictions with a projected loss for the year or a year-to-date loss where no tax benefit can be recognized are excluded from the estimated annual effective income tax rate.

The Company is required to assess its deferred tax assets and the need for a valuation allowance at each reporting period. This assessment requires judgment on the part of management with respect to benefits that may be realized. The Company will record a valuation allowance against deferred tax assets when it is considered more likely than not that all or a portion of the deferred tax assets will not be realized.

The valuation allowance for deferred tax assets as of June 30, 2017 and September 30, 2016 was $3.6 million. The valuation allowances as of June 30, 2017 and September 30, 2016 were primarily related to U.S. state and local and foreign net operating loss carryforwards that, in the judgment of management, are not more likely than not to be realized. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company incurred U.S. federal, state, and local taxable income (losses) for the fiscal years ended September 30, 2016, 2015, and 2014 of $(9.7) million, $16.5 million, and $(18.4) million, respectively. There are no significant differences between actual levels of past taxable income and the results of operations, before income taxes in these jurisdictions. When evaluating if U.S. federal, state, and local deferred tax assets are realizable, the Company considered deferred tax liabilities of $4.5 million that are scheduled to reverse from 2017 to 2019 and $1.3 million of deferred tax liabilities associated with unrealized gains in securities which the Company could sell, if necessary. Furthermore, the Company considered its ability to implement business and tax planning strategies that would allow the remaining U.S. federal, state, and local deferred tax assets, net of valuation allowances, to be realized within approximately 11 years. Based on the tax planning strategies that are prudent and feasible, management believes that it is more likely than not that the Company will realize the tax benefit of the deferred tax assets, net of the existing valuation allowance, in the future. However, the realization of deferred income taxes is dependent on future events, and changes in estimates in future periods could result in adjustments to the valuation allowance.

Income tax expense of $2.3 million and $6.8 million for the three months ended June 30, 2017 and 2016 and income tax expense of $7.7 million and $15.6 million for the nine months ended June 30, 2017 and 2016, respectively, reflect estimated federal, foreign, state and local taxes.

For the three months ended June 30, 2017 and 2016, the Company's effective tax rate was 15% and 32%, respectively. For the nine months ended June 30, 2017 and 2016, the Company's effective tax rate was 20% and 29%, respectively. The effective tax rate during the periods above, after consideration for discrete items, was lower than the U.S. federal statutory rate primarily due to a higher mix of earnings taxed at lower rates in foreign jurisdictions.

The Company and its subsidiaries file income tax returns with the U.S. federal jurisdiction and various state, local and foreign jurisdictions. The Company has open tax years ranging from September 30, 2008 through September 30, 2016 with U.S. federal and state and local taxing authorities. In the U.K., the Company has open tax years ending September 30, 2015 to

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September 30, 2016. In Brazil, the Company has open tax years ranging from December 31, 2011 through December 31, 2016. In Argentina, the Company has open tax years ranging from September 30, 2009 to September 30, 2016.

Note 16 –Acquisitions

ICAP's EMEA Oils Broking Business

In September 2016, the Company's subsidiary, INTL FCStone Ltd ("IFL"), reached an agreement to acquire the London-based EMEA oils business of ICAP Plc. The acquisition was effective on October 1, 2016, after IFL received approval from the U.K. Competition and Markets Authority. The business included over 30 front office employees across the fuel, crude, middle distillates, futures and options desks that have relationships with over 200 commercial and institutional customers throughout Europe, the Middle East and Africa. The terms of the agreement included cash consideration of $6.0 million paid directly to ICAP as well as incentive amounts payable to employees acquired based upon their continued employment. The cash consideration paid to ICAP was dependent upon the number of brokers who accepted IFL's employment offer. The transaction was accounted for as an asset acquisition in accordance with FASB ASC 805-50 and FASB ASC 350. The cash consideration paid was allocated entirely to the intangible asset recognized related to the customer relationships acquired. The intangible asset was assigned to the Clearing and Execution Services segment and will be amortized over a useful life of 5 years.

Note 17 – Segment Analysis

The Company reports its operating segments based on services provided to customers. The Company's business activities are managed as operating segments and organized into reportable segments as follows:

- Commercial Hedging (includes components Financial Agricultural (Ag) & Energy and LME Metals)
- Global Payments
- Securities (includes components Equity Market-Making, Debt Trading, Investment Banking, and Asset Management)
- Physical Commodities (includes components Precious Metals and Physical Ag & Energy)
- Clearing and Execution Services (includes components Exchange-traded Futures & Options, FX Prime Brokerage, Correspondent Clearing, Independent Wealth Management and Derivative Voice Brokerage)

The total revenues reported combine gross revenues for the physical commodities business for subsidiaries that are not broker-dealers and net revenues for all other businesses. In order to reflect the way that the Company's management views the results, the table below also reflects the segment contribution to 'operating revenues', which is shown on the face of the condensed consolidated income statements and which is calculated by deducting physical commodities cost of sales from total revenues.

Segment data includes the profitability measure of net contribution by segment. Net contribution is one of the key measures used by management to assess the performance of each segment and for decisions regarding the allocation of the Company's resources. Net contribution is calculated as revenue less direct cost of sales, transaction-based clearing expenses, variable compensation, introducing broker commissions, and interest expense. Variable compensation paid to risk management consultants/traders generally represents a fixed percentage of an amount equal to revenues generated, and in some cases, revenues produced less transaction-based clearing charges, base salaries and an overhead allocation.

Segment data also includes segment income which is calculated as net contribution less non-variable direct expenses of the segment. These non-variable direct expenses include trader base compensation and benefits, operational employee compensation and benefits, communication and data services, business development, professional fees, bad debt expense and other direct expenses.

Inter-segment revenues, charges, receivables and payables are eliminated upon consolidation, except revenues and costs related to foreign currency transactions undertaken on an arm's length basis by the foreign exchange trading business for the securities business.

On a recurring basis, the Company sweeps excess cash from certain U.S. operating segments to a centralized corporate treasury function in exchange for an intercompany receivable asset. The intercompany receivable asset is eliminated during consolidation, and therefore this practice may impact reported total assets between segments.

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Information for the reportable segments is shown in accordance with the Segment Reporting Topic of the ASC as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2017	2016	2017	2016
Total revenues:				
Commercial Hedging	$57.1	$71.9	$177.3	$182.0
Global Payments	22.5	18.4	67.1	54.1
Securities	40.0	41.6	115.3	136.0
Physical Commodities	5,320.3	4,701.2	16,495.2	11,506.4
Clearing and Execution Services	65.4	33.3	193.2	96.4
Corporate unallocated	0.6	2.1	(7.0)	2.4
Total	$5,505.9	$4,868.5	$17,041.1	$11,977.3
Operating revenues (loss):				
Commercial Hedging	$57.1	$71.9	$177.3	$182.0
Global Payments	22.5	18.4	67.1	54.1
Securities	40.0	41.6	115.3	136.0
Physical Commodities	12.0	7.7	33.0	21.5
Clearing and Execution Services	65.4	33.3	193.2	96.4
Corporate unallocated	0.6	2.1	(7.0)	2.4
Total	$197.6	$175.0	$578.9	$492.4
Net operating revenues (loss):				
Commercial Hedging	$44.2	$57.7	$140.3	$145.6
Global Payments	20.3	16.4	60.0	48.2
Securities	24.6	27.7	73.8	95.5
Physical Commodities	10.2	6.2	27.3	17.7
Clearing and Execution Services	25.6	10.0	75.1	30.8
Corporate unallocated	(1.6)	(0.7)	(15.0)	(4.9)
Total	$123.3	$117.3	$361.5	$332.9
Net contribution:				
(Revenues less cost of sales of physical commodities, transaction-based clearing expenses, variable bonus compensation, introducing broker commissions and interest expense)				
Commercial Hedging	$32.6	$41.4	$102.9	$103.6
Global Payments	16.2	13.2	47.9	38.6
Securities	20.2	21.2	58.9	75.7
Physical Commodities	7.6	3.6	19.9	12.3
Clearing and Execution Services	19.1	8.0	56.7	24.1
Total	$95.7	$87.4	$286.3	$254.3
Segment income:				
(Net contribution less non-variable direct segment costs)				
Commercial Hedging	$16.3	$25.4	$50.4	$54.2
Global Payments	12.9	9.9	37.8	29.2
Securities	12.9	14.4	37.5	54.5
Physical Commodities	4.3	1.3	11.2	4.2
Clearing and Execution Services	6.5	3.4	20.1	10.4
Total	$52.9	$54.4	$157.0	$152.5
Reconciliation of segment income to income before tax:				
Segment income	$52.9	$54.4	$157.0	$152.5

Net costs not allocated to operating segments	37.9	33.0	119.3	99.0
Income before tax	$15.0	$21.4	$37.7	$53.5

(in millions)	As of June 30, 2017	As of September 30, 2016
Total assets:		
Commercial Hedging	$1,591.0	$1,637.5
Global Payments	257.2	191.4
Securities	2,300.7	2,130.7
Physical Commodities	304.2	258.0
Clearing and Execution Services	1,590.5	1,617.4
Corporate unallocated	152.3	115.3
Total	$6,195.9	$5,950.3

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Throughout this document, unless the context otherwise requires, the terms “Company”, “we”, “us” and “our” refer to INTL FCStone Inc. and its consolidated subsidiaries. INTL FCStone Inc. is a Delaware corporation.

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the control of INTL FCStone Inc. and its subsidiaries, including adverse changes in economic, political and market conditions, losses from our market-making and trading activities arising from counter-party failures and changes in market conditions, the possible loss of key personnel, the impact of increasing competition, the impact of changes in government regulation, the possibility of liabilities arising from violations of foreign, federal and state securities laws and the impact of changes in technology in the securities and commodities trading industries. Although we believe that our forward-looking statements are based upon reasonable assumptions regarding our business and future market conditions, there can be no assurances that our actual results will not differ materially from any results expressed or implied by our forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. We caution readers that any forward-looking statements are not guarantees of future performance.

Overview

INTL FCStone Inc. is a diversified global financial services organization providing execution, risk management and advisory services, market intelligence, and clearing services across asset classes and markets around the world. We help our customers access market liquidity, maximize profits and manage risk.

We are a leader in the development of specialized financial services in commodities, securities, global payments, foreign exchange and other markets. Our revenues are derived primarily from financial products and advisory services intended to fulfill our customers’ real needs and provide bottom-line benefits to their businesses. We work to create added value for our customers by providing access to global financial markets using our industry and financial expertise, deep partner and network relationships, insight and guidance, and integrity and transparency. We believe our customer-first approach differentiates us from large banking institutions, engenders trust, and has enabled us to establish leadership positions in a number of complex fields in financial markets around the world.

Our leadership positions span markets such as commodity risk management advisory services; global payments; market-making in international equities and other securities; fixed income; correspondent securities clearing and independent wealth management; physical trading and hedging of precious metals and select other commodities; execution of listed futures and options on futures contracts on all major commodity exchanges and foreign currency trading, among others. These businesses are supported by our global infrastructure of regulated operating subsidiaries, advanced technology platform and team of more than 1,600 employees. We currently serve more than 20,000 predominantly wholesale organizations, located in more than 130 countries. Our recent acquisition of the Sterne Agee correspondent clearing and independent wealth management businesses added approximately 50 correspondent clearing relationships with more than 120,000 underlying individual securities accounts, of which 65,000 are related to the independent wealth management business acquired.

Our customers include producers, processors and end-users of nearly all widely traded physical commodities; commercial counterparties who are end-users of our products and services; governmental and non-governmental organizations; and commercial banks, asset managers, introducing broker-dealers, insurance companies, brokers, institutional investors and major investment banks. We believe our customers value us for our focus on their needs, our expertise and flexibility, our global reach, our ability to provide access to hard-to-reach markets and opportunities, and our status as a well-capitalized and regulatory-compliant organization.

We believe we are well positioned to capitalize on key trends impacting the financial services sector. Among others, these trends include the impact of increased regulation on banking institutions and other financial services providers; increased consolidation, especially of smaller sub-scale financial services providers and independent securities clearing firms; the growing importance and complexity of conducting secure cross-border transactions; and the demand among financial institutions to transact with well-capitalized counterparties.

We focus on mitigating exposure to market risk, ensuring adequate liquidity to maintain daily operations and making non-interest expenses variable, to the greatest extent possible.

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Executive Summary

We achieved operating revenues growth of 13%, or $22.6 million, in the third quarter compared to the prior year, with increases in our Clearing and Execution Services ("CES"), Global Payments and Physical Commodities segments, partially offset by lower operating revenues in our Commercial Hedging and Securities segments. Our CES segment increased operating revenues by $32.1 million, primarily related to contributions from our recent acquisitions of the correspondent securities clearing and independent wealth management businesses of Sterne Agee and ICAP plc's London-based EMEA oil voice brokerage business of $25.3 million and $6.9 million, respectively.

Overall, segment income declined 3%, with the Commercial Hedging and Securities segments declining $9.1 million and $1.5 million, respectively. Partially offsetting these declines, the Global Payments and Physical Commodities segments each increased $3.0 versus the prior year period, and segment income increased $3.1 million in our CES segment.

Commercial Hedging segment income declined primarily as a result of an decreases in both exchange-traded and OTC revenues as well as a modest increase in non-variable direct expenses. These declines were partially offset by an increase in interest income, driven by an increase in short term interest rates.

CES segment income increased, primarily as a result of the acquisition of the correspondent securities clearing and independent wealth management businesses of Sterne Agee in the fourth quarter of fiscal 2016 as well as the acquisition of ICAP plc's London-based EMEA oil voice brokerage business at the beginning of our current year first quarter. The Sterne Agee businesses contributed $3.0 million in segment income in the third quarter while the Derivative Voice Brokerage business contributed $1.2 million. These increases were partially offset by $0.8 million and $0.2 million declines in our Exchange-traded Futures & Options and FX Prime Brokerage businesses, respectively.

The growth in Physical Commodities segment income was driven by $2.8 million and $0.2 million increases in our Precious Metals and Physical Ag & Energy segment incomes, respectively. Finally, the decline in Securities segment income was primarily driven by weaker operating revenues in our Equity Market-Making and Debt Trading business driven by lower market volatility which led to spread compression in these businesses.

On the expense side, we continue to focus on maintaining our variable cost model and limiting the growth of our non-variable expenses. To that end, variable expenses were 57% of total expenses in the current period as compared to 61% in the prior year. Non-variable expenses increased 29%, or $16.8 million year-over-year, primarily as a result of $10.7 million in incremental expenses, including non-variable compensation, trade system costs, equipment and office space rental, professional fees and market information, from the acquisition of the Sterne Agee and ICAP businesses.

Net income declined 13% to $12.7 million in the third quarter as compared to the prior year. While the acquired correspondent securities clearing and independent wealth management business added $3.0 million in incremental segment income, the additional Corporate unallocated expenses in these acquired businesses, resulted in a $0.7 million net loss in the current period. These acquired business were break even in the immediately preceding second quarter and a $0.6 million net loss in the first quarter of fiscal 2017. The acquired oil voice brokerage business, recognized segment income of $1.2 million in the current period with $0.3 million of acquired Corporate unallocated expenses.

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Selected Summary Financial Information

Results of Operations

Total revenues reported combine gross revenues for the physical commodities business and net revenues for all other businesses. In order to reflect the way that we view the results, the table below reflects the calculation of the subtotal ‘operating revenues’, which is calculated by deducting physical commodities cost of sales from total revenues. Below is a discussion of the results of our operations, as viewed by management, for the three and nine months ended June 30, 2017 and 2016.

Financial Information (Unaudited)

	Three Months Ended June 30,			Nine Months Ended June 30,		
(in millions)	2017	% Change	2016	2017	% Change	2016
Revenues:						
Sales of physical commodities	$5,317.0	13 %	$4,703.2	$16,486.3	43 %	$11,503.8
Trading gains, net	79.9	(4)%	83.4	246.9	1 %	243.8
Commission and clearing fees	73.0	25 %	58.2	212.5	33 %	159.4
Consulting and management fees	16.3	104 %	8.0	47.5	74 %	27.3
Interest income	19.6	26 %	15.6	47.7	11 %	42.8
Other income	0.1	—	0.1	0.2	— %	0.2
Total revenues	5,505.9	13 %	4,868.5	17,041.1	42 %	11,977.3
Cost of sales of physical commodities	5,308.3	13 %	4,693.5	16,462.2	43 %	11,484.9
Operating revenues	197.6	13 %	175.0	578.9	18 %	492.4
Transaction-based clearing expenses	33.9	(4)%	35.2	101.2	3 %	97.9
Introducing broker commissions	29.2	97 %				